

Ubuntu Municipality



*menswaardigheid • hoop • erfenis
ubuntu • ithemba • izithethe
humanity • hope • heritage*

Ubuntu Local Municipality
Annual Financial Statements
for the year ended 30 June 2018
The Auditor-General of South Africa

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

General Information

Legal form of entity	Local municipality as defined by the Municipal Structures Act (Act no.117 of 1998)
Nature of business and principal activities	Ubuntu Municipality is a local municipality performing the functions as set out in the Constitution (Act no. 105 of 1996)
Mayoral committee	
Mayor	AL Kweleta
Councillors	PE Jantjies W Schutz CC Jantjies JZ Lolwana KJ Arens JH Vorster
Grading of local authority	Category B as defined by the Municipal Structures Act (Act number 117 of 1998)
Chief Finance Officer (CFO)	Mr RA Jacobs
Accounting Officers	Mr T Makhoba Mr WS Madyo (22 January 2018 to 30 April 2018) Mr D Maposa (Acting since 25 May 2018)
Registered office	78 Church Street Victoria West 7070
Business address	78 Church Street Victoria West 7070
Bankers	First National Bank
Auditors	The Auditor-General of South Africa
Enabling legislation	Municipal Finance Management Act (Act no. 56 of 2003) Division of Revenue Act The Income Tax Act (Act no. 58 of 1962) The Value-added Tax Act (Act no. 89 of 1991) Municipal Structures Act (Act no. 117 of 1998) Municipal Systems Act (Act no. 32 of 2000) Municipal Planning and Performance Management Regulations Housing Act (Act no. 107 of 1997) Skills Development Levies Act (Act no. 9 of 1999) Employment Equity Act (Act no. 55 of 1998) Unemployment Insurance Act (Act no. 30 of 1966) Basic Conditions of Employment Act (Act no. 75 of 1997) Supply Chain Management Regulations Act, 2005 Disaster Management Act of 2016 Spatial Planning and Land Use Management Act (Act no. 16 of 2013) Property Rates Act 6 of 2004

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

	Page
Accounting Officers' Responsibilities and Approval	4
Accounting Officer's Report	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 13
Appropriation Statement	14 - 15
Accounting Policies	16 - 43
Notes to the Annual Financial Statements	44 - 89
Appendixes:	
Appendix A: Schedule of External loans	90
Appendix B: Analysis of Property, Plant and Equipment	91
Appendix D: Segmental Statement of Financial Performance	93
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	94

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Index

COID	Compensation for Occupational Injuries and Diseases
DoRA	Division of Revenue Act
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
IDP	Integrated Development Plan
INEP	Integrated National Electrification Programme
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
MSA	Municipal Systems Act
PAYE	Pay As You Earn
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
NERSA	National Energy Regulator of South Africa
SALGA	South African Local Government Association
SARS	South African Revenue Service

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Officers' Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officers sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officers have reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. For detailed going concern assumptions refer to note 49.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the municipality's external auditors and their report is presented on page 5.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Corporative Governance determination in accordance with this Act.

The annual financial statements set out on pages 5 to 89, which have been prepared on the going concern basis, were approved by the accounting officers on 31 August 2018 and were signed on its behalf by:

Mr D Maposa
Acting Municipal Manager

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interests of the local community within the Ubuntu municipal area and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 26 427 276 (2017: deficit R 68 360 867).

2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of R 561 216 704 and that the municipality's total assets exceed its total liabilities by R 561 216 704.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Furthermore management has reviewed the municipality's cash flow forecast for the year ended 30 June 2019 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue its operation existing for the foreseeable future.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocations as published in terms of the Division of Revenue Act (Act 1 of 2019).

For details of management's assumptions with respect to the applicability of the going concern assumption refer to note 49.

3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officers' interest in contracts

No matters to report.

5. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any directives and interpretations of such Standards issued by the Accounting Standards Board and in accordance with Section 122(3) of the Municipal Finance Management Act (Act No.56 of 2003).

6. Accounting Officers

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
Mr T Makhoba	South African	Appointed 4 January 2017
Mr WS Madyo	South African	Appointed 22 January 2018, resigned 30 April 2018
Mr D Maposa	South African	Acting since 25 May 2018

7. Auditors

The Auditor-General of South Africa will continue in office for the next financial period.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	10 906	10 906
Other receivables from exchange transactions	4	1 093 058	241 715
Receivables from non-exchange transactions	5	10 075 232	8 264 760
VAT receivable	6	1 731 984	-
Receivables from exchange transactions	7	4 403 468	4 636 385
Cash and cash equivalents	8	5 174 429	2 528 826
		22 489 077	15 682 592
Non-Current Assets			
Investment property	9	29 286 459	29 322 112
Property, plant and equipment	10	610 005 164	623 338 591
Intangible assets	11	2 274 744	2 290 362
		641 566 367	654 951 065
Total Assets		664 055 444	670 633 657
Liabilities			
Current Liabilities			
Other financial liabilities	12	-	269 204
Finance lease obligation	13	455 534	331 275
Payables from exchange transactions	14	85 489 203	60 147 837
VAT payable	15	-	615 861
Consumer deposits	16	197 890	193 699
Employee benefit obligation	17	431 000	582 000
Unspent conditional grants and receipts	18	4 111 532	9 039 594
Provisions	19	1 344 868	2 964 249
		92 030 027	74 143 719
Non-Current Liabilities			
Finance lease obligation	13	1 705 341	1 618 515
Employee benefit obligation	17	5 718 000	6 056 000
Provisions	19	3 385 372	1 171 442
		10 808 713	8 845 957
Total Liabilities		102 838 740	82 989 676
Net Assets		561 216 704	587 643 981
Accumulated surplus		561 216 704	587 643 981

* See Note 40

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	17 843 159	22 478 567
Rental of facilities and equipment	21	207 376	252 409
Interest received (trading)		1 945 255	4 036 767
Licences and permits		106 535	556 393
Other income		843 045	373 349
Interest received - investment	22	402 336	317 974
Total revenue from exchange transactions		21 347 706	28 015 459
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	5 043 171	5 342 908
Transfer revenue			
Government grants & subsidies	24	47 873 527	31 534 975
Public contributions and donations	25	3 587 482	2 142 434
Fines, Penalties and Forfeits	26	32 524 508	30 507 769
Total revenue from non-exchange transactions		89 028 688	69 528 086
Total revenue	27	110 376 394	97 543 545
Expenditure			
Employee related costs	28	(28 952 960)	(29 097 607)
Remuneration of councillors	29	(2 540 609)	(2 463 979)
Depreciation and amortisation	30	(24 711 375)	(46 671 697)
Impairment loss / Reversal of impairments	31	(32 463 490)	(45 938 230)
Finance costs	32	(5 809 055)	(5 866 658)
Bulk purchases	33	(25 908 209)	(17 544 271)
Contracted services	34	(4 251 380)	(5 877 828)
General Expenses	35	(12 925 567)	(12 756 223)
Total expenditure		(137 562 645)	(166 216 493)
Operating deficit		(27 186 251)	(68 672 948)
Loss on disposal of assets and liabilities		(253 157)	(655 137)
Actuarial gains	17	1 012 132	967 218
		758 975	312 081
Deficit for the year		(26 427 276)	(68 360 867)

* See Note 40

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	655 308 030	655 308 030
Adjustments		
Prior year adjustments	696 818	696 818
Balance at 01 July 2016 as restated*	656 004 848	656 004 848
Changes in net assets		
Surplus / (deficit) for the year	(68 360 867)	(68 360 867)
Total changes	(68 360 867)	(68 360 867)
Restated* Balance at 01 July 2017	587 643 980	587 643 980
Changes in net assets		
Surplus / (deficit) for the year	(26 427 276)	(26 427 276)
Total changes	(26 427 276)	(26 427 276)
Balance at 30 June 2018	561 216 704	561 216 704
Note(s)		

* See Note 40

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		21 362 790	20 522 761
Grants		46 532 946	32 710 435
Interest income		2 347 591	4 354 741
		<u>70 243 327</u>	<u>57 587 937</u>
Payments			
Employee costs		(30 971 014)	(31 194 033)
Suppliers		(19 492 896)	(17 758 412)
Finance costs		(5 809 055)	(5 600 262)
		<u>(56 272 965)</u>	<u>(54 552 707)</u>
Net cash flows from operating activities	36	<u>13 970 362</u>	<u>3 035 230</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(11 266 640)	(4 611 743)
Purchase of other intangible assets	11	-	(31 040)
Net cash flows from investing activities		<u>(11 266 640)</u>	<u>(4 642 783)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(269 204)	(286 899)
Finance lease payments		211 085	1 855 562
Net cash flows from financing activities		<u>(58 119)</u>	<u>1 568 663</u>
Net increase/(decrease) in cash and cash equivalents		<u>2 645 603</u>	<u>(38 890)</u>
Cash and cash equivalents at the beginning of the year		2 528 826	2 567 716
Cash and cash equivalents at the end of the year	8	<u>5 174 429</u>	<u>2 528 826</u>

* See Note 40

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
--	-----------------	-------------	--------------	------------------------------------	--	-----------

Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	32 008 741	34 000	32 042 741	17 843 159	(14 199 582)	51, x1
Rental of facilities and equipment	117 632	-	117 632	207 376	89 744	51, x2
Interest received (trading)	4 749 533	-	4 749 533	1 945 255	(2 804 278)	51, x3
Licences and permits	-	-	-	106 535	106 535	51, x4
Other income	6 857 101	-	6 857 101	843 045	(6 014 056)	51, x5
Interest received - investment	105 730	-	105 730	402 336	296 606	51, x6
Total revenue from exchange transactions	43 838 737	34 000	43 872 737	21 347 706	(22 525 031)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	10 882 140	(1 900 000)	8 982 140	5 043 171	(3 938 969)	51, x7
----------------	------------	-------------	------------------	-----------	--------------------	--------

Transfer revenue

Government grants & subsidies	31 952 000	(3 219 536)	28 732 464	47 873 527	19 141 063	51, x8
Public contributions and donations	-	-	-	3 587 482	3 587 482	51, x9
Fines, Penalties and Forfeits	26 588 715	-	26 588 715	32 524 508	5 935 793	51, x10

Total revenue from non-exchange transactions	69 422 855	(5 119 536)	64 303 319	89 028 688	24 725 369	
---	-------------------	--------------------	-------------------	-------------------	-------------------	--

Total revenue	113 261 592	(5 085 536)	108 176 056	110 376 394	2 200 338	
----------------------	--------------------	--------------------	--------------------	--------------------	------------------	--

Expenditure

Personnel	(38 548 042)	-	(38 548 042)	(28 952 960)	9 595 082	51, x11
Remuneration of councillors	(2 001 620)	-	(2 001 620)	(2 540 609)	(538 989)	51, x12
Depreciation and amortisation	(4 496 284)	-	(4 496 284)	(24 711 375)	(20 215 091)	51, x13
Impairment loss/ Reversal of impairments	(25 586 729)	-	(25 586 729)	(32 463 490)	(6 876 761)	51, x14

Finance costs	(1 161 941)	-	(1 161 941)	(5 809 055)	(4 647 114)	51, x15
Repairs and maintenance	(3 767 770)	-	(3 767 770)	(1 645 042)	2 122 728	51, x16
Bulk purchases	(15 236 219)	(300 000)	(15 536 219)	(25 908 209)	(10 371 990)	51, x17
Contracted Services	(650 324)	-	(650 324)	(4 251 380)	(3 601 056)	51, x18
General Expenses	(18 689 604)	-	(18 689 604)	(11 280 525)	7 409 079	51, x19

Total expenditure	(110 138 533)	(300 000)	(110 438 533)	(137 562 645)	(27 124 112)	
--------------------------	----------------------	------------------	----------------------	----------------------	---------------------	--

Operating deficit	3 123 059	(5 385 536)	(2 262 477)	(27 186 251)	(24 923 774)	
--------------------------	------------------	--------------------	--------------------	---------------------	---------------------	--

Loss on disposal of assets and liabilities	-	-	-	(253 157)	(253 157)	51, x20
--	---	---	---	-----------	------------------	---------

Actuarial gains/losses	-	-	-	1 012 132	1 012 132	51, x21
------------------------	---	---	---	-----------	------------------	---------

	-	-	-	758 975	758 975	
--	---	---	---	----------------	----------------	--

Deficit before taxation	3 123 059	(5 385 536)	(2 262 477)	(26 427 276)	(24 164 799)	
--------------------------------	------------------	--------------------	--------------------	---------------------	---------------------	--

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	3 123 059	(5 385 536)	(2 262 477)	(26 427 276)	(24 164 799)	

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
--	--------------------	-------------	--------------	--	---	-----------

Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	-	-	-	10 906	10 906	
Other receivables from exchange transactions	23 458 760	-	23 458 760	1 093 058	(22 365 702)	
Receivables from non-exchange transactions	-	-	-	10 075 232	10 075 232	
VAT receivable	-	-	-	1 731 984	1 731 984	
Consumer debtors	2 770 783	-	2 770 783	4 403 468	1 632 685	
Cash and cash equivalents	5 232 236	-	5 232 236	5 174 429	(57 807)	
	31 461 779	-	31 461 779	22 489 077	(8 972 702)	

Non-Current Assets

Biological assets that form part of an agricultural activity	167 800	-	167 800	-	(167 800)	
Investment property	23 110 754	-	23 110 754	29 286 459	6 175 705	
Property, plant and equipment	127 161 313	-	127 161 313	610 005 164	482 843 851	
Intangible assets	356 754	-	356 754	2 274 744	1 917 990	
	150 796 621	-	150 796 621	641 566 367	490 769 746	
Total Assets	182 258 400	-	182 258 400	664 055 444	481 797 044	

Liabilities

Current Liabilities

Other financial liabilities	1 000 000	-	1 000 000	-	(1 000 000)	
Finance lease obligation	-	-	-	455 534	455 534	
Payables from exchange transactions	35 000 564	-	35 000 564	85 489 206	50 488 642	
Consumer deposits	241 572	-	241 572	197 890	(43 682)	
Employee benefit obligation	-	-	-	431 000	431 000	
Unspent conditional grants and receipts	-	-	-	4 111 532	4 111 532	
Provisions	3 090 530	-	3 090 530	1 344 868	(1 745 662)	
	39 332 666	-	39 332 666	92 030 030	52 697 364	

Non-Current Liabilities

Other financial liabilities	3 000 000	(3 000 000)	-	-	-	
Finance lease obligation	-	-	-	1 705 341	1 705 341	
Employee benefit obligation	-	-	-	5 718 000	5 718 000	
Provisions	8 324 476	-	8 324 476	3 385 372	(4 939 104)	
	11 324 476	(3 000 000)	8 324 476	10 808 713	2 484 237	
Total Liabilities	50 657 142	(3 000 000)	47 657 142	102 838 743	55 181 601	
Net Assets	131 601 258	3 000 000	134 601 258	561 216 701	426 615 443	

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	131 601 258	3 000 000	134 601 258	561 216 701	426 615 443	

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2018											
Financial Performance											
Property rates	10 882 140	(1 900 000)	8 982 140	-		8 982 140	5 043 171		(3 938 969)	56 %	46 %
Service charges	32 008 741	34 000	32 042 741	-		32 042 741	17 843 159		(14 199 582)	56 %	56 %
Investment revenue	105 730	-	105 730	-		105 730	402 336		296 606	381 %	381 %
Transfers recognised - operational	31 952 000	(3 219 536)	28 732 464	-		28 732 464	35 044 464		6 312 000	122 %	110 %
Other own revenue	38 312 981	-	38 312 981	-		38 312 981	36 638 851		(1 674 130)	96 %	96 %
Total revenue (excluding capital transfers and contributions)	113 261 592	(5 085 536)	108 176 056	-		108 176 056	94 971 981		(13 204 075)	88 %	84 %
Employee costs	(38 548 042)	-	(38 548 042)	-	-	(38 548 042)	(28 952 960)	-	9 595 082	75 %	75 %
Remuneration of councillors	(2 001 620)	-	(2 001 620)	-	-	(2 001 620)	(2 540 609)	-	(538 989)	127 %	127 %
Debt impairment	(25 586 729)	-	(25 586 729)			(25 586 729)	-	-	25 586 729	- %	- %
Depreciation and asset impairment	(4 496 284)	-	(4 496 284)			(4 496 284)	(57 174 865)	-	(52 678 581)	1 272 %	1 272 %
Finance charges	(1 161 941)	-	(1 161 941)	-	-	(1 161 941)	(5 809 055)	-	(4 647 114)	500 %	500 %
Materials and bulk purchases	(19 003 989)	(300 000)	(19 303 989)	-	-	(19 303 989)	(25 908 209)	-	(6 604 220)	134 %	136 %
Other expenditure	(19 339 928)	19 339 928	-	-	-	-	(17 430 104)	-	(17 430 104)	DIV/0 %	90 %
Total expenditure	(110 138 533)	19 039 928	(91 098 605)	-	-	(91 098 605)	(137 815 802)	-	(46 717 197)	151 %	125 %
Surplus/(Deficit)	3 123 059	13 954 392	17 077 451	-		17 077 451	(42 843 821)		(59 921 272)	(251)%	(1 372)%

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	-	-	-	12 829 063	-	12 829 063	DIV/0 %	DIV/0 %
Contributions recognised - capital and contributed assets	-	-	-	-	-	-	3 587 482	-	3 587 482	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	3 123 059	13 954 392	17 077 451	-	-	17 077 451	(26 427 276)	-	(43 504 727)	(155)%	(846)%
Surplus/(Deficit) for the year	3 123 059	13 954 392	17 077 451	-	-	17 077 451	(26 427 276)	-	(43 504 727)	(155)%	(846)%

Capital expenditure and funds sources

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures have been rounded off to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.5 Property Plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Property with a currently undetermined use is also classified as investment property.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs is the amount of cash or cash equivalent or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 9).

Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of asset.

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others (other than Investment Property), or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.5 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property plant and equipment are accounted for as property plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent measurement:

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Revaluations are made with sufficient regularity, by registered valuers for every class separately, such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus included in the net assets related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus included in the net assets related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Depreciation and impairment:

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Land, except for landfill and quarry sites, is not depreciated as it has an indefinite useful life.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.5 Property, plant and equipment (continued)

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Subsequent to initial recognition, property plant and equipment on the cost model, is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Community facilities	Straight line	5 - 100 years
Sport and recreation facilities	Straight line	5 - 100 years
Electricity Network	Straight line	10 - 60 years
Water supply network	Straight line	10 - 100 years
Roads and stormwater network	Straight line	5 - 100 years
Sanitation network	Straight line	5 - 100 years
Community facilities	Straight line	5 - 100 years
Housing	Straight line	7 - 100 years
Operational buildings	Straight line	5 - 100 years
Computer equipments	Straight line	5 years
Electrical equipment	Straight line	5 years
Furniture and fittings	Straight line	7 years
Leased assets - office equipment	Straight line	5 years
Mechanical equipment	Straight line	5 years
Office machines	Straight line	5 years
Vehicles	Straight line	6 - 10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Derecognition:

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Commitments:

Where the municipality has a contractual commitment in respect of the acquisition of property, plant and equipment, these are disclosed in note 37. The commitments as disclosed are the contractual amount less any payment made in respect of the contract.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the earlier of the date that asset is classified as held for sale (or included a disposal group that is classified as held for sale) in accordance with the standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is derecognised.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.7 Intangible assets (continued)

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Servitudes	Straight line	Infinite
Computer software	Straight line	4 years

Derecognition:

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.9 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.12 Employee benefits (continued)

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.12 Employee benefits (continued)

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.12 Employee benefits (continued)

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.12 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes post employment medical aid as a minimum

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end, capped at a maximum of 48 days, and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods, if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they are accrued to employees. The liability at year-end is based on bonus accrued at year-end for each employee.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.13 Provisions and contingencies (continued)

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.13 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.5.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.14 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Pre-paid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised. This consists currently mostly of interest and penalties on late payments made.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.22 Irregular expenditure (continued)

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.25 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statement. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.27 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.27 Related parties (continued)

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.29 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate 15% from 1 April 2018 (2017:14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The Municipality accounts for VAT on a bi-monthly basis.

1.30 Accumulated surplus

The municipality's surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

GRAP 110 (as amended 2016): Living and Non-living Resources

Amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the amendment is for years beginning on or after 01 April 2020.

The municipality expects to adopt the amendment for the first time in the 2020 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

An municipality shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2019 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

The impact of this amendment is currently being assessed.

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods but are not relevant to its operations:

GRAP 18 (as amended 2016): Segment Reporting

Amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the amendment is for years beginning on or after 01 April 2019

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of this amendment is currently being assessed.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 106 (as amended 2016): Transfers of functions between entities not under common control

Amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control resulted from changes made to IFRS 3 on Business Combinations (IFRS 3) as a result of the IASB's amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:

- IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

The effective date of the amendment is for years beginning on or after 01 April 2019.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the interpretation until such time as it becomes applicable to the municipality's operations.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2020 financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 27 (as amended 2016): Agriculture

Amendments to the Standard of GRAP on Agriculture resulted from changes made to IPSAS 27 on Agriculture (IPSAS 27) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The most significant changes to the Standard are:

- IPSASB amendments: To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27. In addition to the changes made by the IPSASB, a consequential amendment has been made to GRAP 103 on Heritage Assets. The IPSASB currently does not have a pronouncement on this topic.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the directive is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the directive until such time as it becomes applicable to the municipality's operations.

It is unlikely that the directive will have a material impact on the municipality's annual financial statements.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

3. Inventories

Water	10 906	10 906
-------	--------	--------

Inventory pledged as security

There are no inventories pledged as security.

4. Other receivables from exchange transactions

Prepaid interest DBSA loan	3 997	-
Sundry receivables	642 239	164 338
Medical aid contributions recoverable	103 191	56 474
Payroll receivables	339 591	20 903
Cash in transit	4 040	-
	1 093 058	241 715

Other receivables from exchange transactions pledged as security

None of the other receivables from exchange transactions were pledged as security for any financial liability at year-end.

Credit quality of other receivables from exchange transactions

The credit quality of other receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Other receivables from exchange transactions past due but not impaired

Other receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 1 093 058 (2017: R 242 715) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	1 093 058	241 715
-------------------	-----------	---------

5. Receivables from non-exchange transactions

Traffic fines	8 360 483	4 728 095
Deposits paid	1 067	4 869
Property rates	1 713 682	3 531 796
	10 075 232	8 264 760

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions were pledged as security for any financial liability at year-end. The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
5. Receivables from non-exchange transactions (continued)		
Property rates: Ageing		
Current (0 - 30 days)	477 723	815 612
31 - 60 days	406 614	433 716
61 - 90 days	261 885	390 837
91 days +	17 272 881	16 238 246
Less: Impairment	(16 705 421)	(14 346 615)
	1 713 682	3 531 796
Property rates by classification: consumers		
Current (0 - 30 days)	323 465	214 211
31 - 60 days	269 756	196 489
61 - 90 days	206 327	173 681
91 days +	11 237 364	7 957 972
Less: Impairment	(11 897 858)	(8 194 383)
	139 054	347 970
Property rates by classification: Industrial / commercial		
Current (0 - 30 days)	132 744	337 435
31 - 60 days	115 666	197 958
61 - 90 days	54 044	182 403
91 days +	5 110 272	5 584 370
Less: Impairment	(4 807 563)	(6 152 232)
	605 163	149 934
Property rates by classification: National and Provincial		
Current (0 - 30 days)	21 513	263 966
31 - 60 days	21 193	39 270
61 - 90 days	1 514	34 753
91 days +	925 265	2 695 903
	969 485	3 033 892
Total		
Current (0 - 30 days)	477 723	815 612
31 - 60 days	406 614	433 716
61 - 90 days	261 885	390 837
91 days +	17 272 881	16 238 246
Less: Impairment	(16 705 421)	(14 346 615)
	1 713 682	3 531 796

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 10 074 165 (2017: R 8 259 891) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 - 3 months past due (Property Rates)	1 713 682	3 531 796
1 - 3 months past due (Traffic Fines)	8 360 483	4 728 095

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

5. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions impaired

As of 30 June 2018, receivables from non-exchange transactions of R 164 212 340 (2017: R 137 315 516) were impaired and provided for.

The ageing of these loans is as follows:

3 to 6 months (Property Rates)	16 705 421	14 346 615
3 to 6 months (Traffic Fines)	147 506 919	122 968 901

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(137 315 516)	(111 234 408)
Provision for impairment	(26 896 824)	(26 081 108)
	(164 212 340)	(137 315 516)

6. VAT receivable

VAT	1 731 984	-
-----	-----------	---

7. Receivable from exchange transactions

Gross balances

Electricity	7 769 177	5 949 801
Water	27 216 188	26 716 142
Sewerage	14 276 597	12 891 894
Refuse	16 271 689	14 495 477
Housing and other sundry	1 421 167	1 255 140
	66 954 818	61 308 454

Less: Allowance for impairment

Electricity	(5 449 070)	(3 499 492)
Water	(26 172 827)	(26 320 932)
Sewerage	(13 648 030)	(11 895 758)
Refuse	(16 004 035)	(13 940 882)
Housing and other sundry	(1 277 388)	(1 015 005)
	(62 551 350)	(56 672 069)

Net balance

Electricity	2 320 107	2 450 309
Water	1 043 361	395 210
Sewerage	628 567	996 136
Refuse	267 654	554 595
Housing and other sundry	143 779	240 135
	4 403 468	4 636 385

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
7. Receivable from exchange transactions (continued)		
Electricity		
Current (0 -30 days)	1 147 928	917 001
31 - 60 days	358 233	388 331
61 - 90 days	315 334	270 030
91 - 120 days	374 665	411 108
> 120 days	5 573 017	3 963 331
Less: Impairment	(5 449 070)	(3 499 492)
	2 320 107	2 450 309
Water		
Current (0 -30 days)	514 423	15 683 908
31 - 60 days	405 261	575 228
61 - 90 days	379 982	1 507 214
91 - 120 days	446 729	1 726 467
> 120 days	25 469 794	7 223 325
Less: Impairment	(26 172 828)	(26 320 932)
	1 043 361	395 210
Sewerage		
Current (0 -30 days)	269 962	370 309
31 - 60 days	234 271	334 992
61 - 90 days	170 777	316 672
91 - 120 days	231 671	292 431
> 120 days	13 369 916	11 577 490
Less: Impairment	(13 648 030)	(11 895 758)
	628 567	996 136
Refuse		
Current (0 -30 days)	260 123	399 867
31 - 60 days	234 012	375 339
61 - 90 days	176 951	357 330
91 - 120 days	221 447	345 849
> 120 days	15 379 156	13 017 092
Less: Impairment	(16 004 035)	(13 940 882)
	267 654	554 595
Housing rental		
Current (0 -30 days)	20 924	20 988
31 - 60 days	19 709	19 822
61 - 90 days	17 348	18 674
91 - 120 days	18 146	17 385
> 120 days	1 345 040	1 178 271
Less: Impairment	(1 277 388)	(1 015 005)
	143 779	240 135

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
7. Receivable from exchange transactions (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	1 548 019	13 969 287
31 - 60 days	806 129	1 051 651
61 - 90 days	679 047	1 065 581
91 - 120 days	870 361	2 215 693
> 120 days	57 667 759	32 172 134
	61 571 315	50 474 346
Less: Allowance for impairment	(61 069 587)	(49 468 044)
	501 728	1 006 302
Industrial/ commercial		
Current (0 -30 days)	362 876	2 369 522
31 - 60 days	234 050	396 294
61 - 90 days	199 151	1 256 118
91 - 120 days	246 487	274 600
> 120 days	781 916	2 954 114
	1 824 480	7 250 648
Less: Allowance for impairment	(1 481 762)	(7 204 024)
	342 718	46 624
National and provincial government		
Current (0 -30 days)	302 490	1 053 264
31 - 60 days	211 306	245 766
61 - 90 days	182 194	148 221
91 - 120 days	175 839	302 947
> 120 days	2 687 195	1 833 261
	3 559 024	3 583 459
Total		
Current (0 -30 days)	2 213 385	17 392 072
31 - 60 days	1 251 485	1 693 711
61 - 90 days	1 060 392	2 469 920
91 - 120 days	1 292 687	2 793 240
> 120 days	61 136 869	36 959 511
	66 954 818	61 308 454
Less: Allowance for impairment	(62 551 350)	(56 672 069)
	4 403 468	4 636 385
Less: Allowance for impairment		
Less: Allowance for impairment	(62 551 350)	(56 672 069)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(56 672 069)	(39 002 569)
Contributions to allowance	(5 879 281)	(17 669 500)
	(62 551 350)	(56 672 069)
Consumer debtors pledged as security		
None of the receivables from exchange transactions were pledged as security for any financial liability at year-end..		

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

7. Receivable from exchange transactions (continued)

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 4 403 468 (2017: R 4 636 385) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 to 3months past due	4 403 468	4 636 385
-----------------------	-----------	-----------

Consumer debtors impaired

As of 30 June 2018, receivables from exchange transaction R 62 551 350 (2017: R 56 672 069) were impaired and provided for.

The ageing of these loans is as follows:

3 to 6 months	62 551 350	56 672 069
---------------	------------	------------

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	449	449
Bank balances	292 958	1 061 780
Short-term deposits	4 881 022	1 466 597
	5 174 429	2 528 826

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings:

Credit rating

F3	5 057 726	1 698 359
F1+	116 254	830 019
	5 173 980	2 528 378

Cash and cash equivalents pledged as collateral

No cash and cash equivalents pledged as security for any financial liability at year-end

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank - Current account (Acc no: 54062338032)	142 922	231 761	(838 413)	142 922	231 761	(838 413)
Standard Bank - Current account (Acc no: 187389179)	116 254	406 457	125 293	116 254	406 457	125 293
Standard Bank - Current account (Acc no: 083192662)	33 782	423 562	117 705	33 782	423 562	117 705
First National Bank - Money market (MSIG)(Acc no: 62089843744)	273	6 013	35 806	273	6 013	35 806
First National Bank - Call account (Acc no: 62247301708)	183 323	2 905	1 153	183 323	2 905	1 153
First National Bank - Call account (Acc no: 62046110920)	110 414	705	9 705	110 414	705	9 705
First National Bank - Call account (FMG) (Acc no: 62056987088)	-	9 218	1 926	-	9 218	1 925
First National Bank - Call account (Acc no: 62050017021)	4	11 672	1 128	4	11 672	1 128
First National Bank - Fixed deposit account	-	-	1 870 327	-	-	1 870 327
First National Bank - Fixed deposit account (Acc no: 71267618613)	123 009	114 267	106 295	123 009	114 267	106 295
First National Bank - Call account (MIG) (Acc no: 62209229831)	1 250 038	1 318 824	1 133 778	1 250 038	1 318 823	1 133 777
First National Bank - Call account (Acc no: 62242043892)	1	1 787	1 769	1	1 787	1 769
First National Bank - Call account (Playground)	-	1 207	1 195	-	1 207	1 195
First National Bank - Call account (WSIG)(Acc no: 62735797667)	3 213 960	-	-	3 213 960	-	-
Total	5 173 980	2 528 378	2 567 667	5 173 980	2 528 377	2 567 665

9. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	29 286 459	-	29 286 459	29 322 112	-	29 322 112

Reconciliation of investment property - 2018

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	29 322 112	(217 450)	181 797	29 286 459

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

9. Investment property (continued)

Reconciliation of investment property - 2017

	Opening balance	Disposals	Total
Investment property	29 339 404	(17 292)	29 322 112

Pledged as security

There are no investment properties pledged as security

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Deemed cost

Deemed cost was determined using fair value.

10. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13 458 320	-	13 458 320	13 458 320	-	13 458 320
Buildings	56 444 650	(41 790 264)	14 654 386	56 470 523	(41 045 162)	15 425 361
Infrastructure assets	852 695 548	(413 767 293)	438 928 255	839 291 844	(393 534 564)	445 757 280
Community assets	247 402 411	(107 817 308)	139 585 103	250 369 219	(106 140 514)	144 228 705
Other property, plant and equipment	7 535 272	(5 632 060)	1 903 212	7 951 942	(5 372 621)	2 579 321
Finance leased assets	2 410 936	(935 048)	1 475 888	2 410 936	(521 332)	1 889 604
Total	1 179 947 137	(569 941 973)	610 005 164	1 169 952 784	(546 614 193)	623 338 591

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	13 458 320	-	-	-	-	-	-	13 458 320
Buildings	15 425 361	-	(7 081)	-	(1 144 532)	-	380 638	14 654 386
Infrastructure assets	445 757 280	11 245 096	(123 384)	91 877	(18 042 614)	-	-	438 928 255
Community assets	144 228 705	-	(29 238)	(91 877)	(4 522 487)	-	-	139 585 103
Other property, plant and equipment	2 579 321	21 544	(56 075)	-	(573 557)	(68 021)	-	1 903 212
Finance leased assets	1 889 604	-	-	-	(413 716)	-	-	1 475 888
	623 338 591	11 266 640	(215 778)	-	(24 696 906)	(68 021)	380 638	610 005 164

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Impairment loss	Total
Land	13 458 320	-	-	-	-	-	13 458 320
Buildings	17 828 217	-	-	-	(1 942 242)	(460 614)	15 425 361
Infrastructure assets	477 955 932	1 909 990	(52 711)	-	(34 055 931)	-	445 757 280
Community assets	155 588 333	-	-	(283 051)	(9 555 868)	(1 520 709)	144 228 705
Other property, plant and equipment	3 372 277	711 208	(432 305)	-	(865 559)	(206 300)	2 579 321
Finance leased assets	336 364	1 990 545	(204 330)	-	(232 975)	-	1 889 604
	668 539 443	4 611 743	(689 346)	(283 051)	(46 652 575)	(2 187 623)	623 338 591

Pledged as security

No property, plant and equipment has been pledged as security for any financial liability at year-end.

Assets subject to finance lease (Net carrying amount)

Office equipment	1 475 888	1 889 604
------------------	-----------	-----------

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

10. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Infrastructure	2 741 423	4 877 741
----------------	-----------	-----------

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	4 877 741	4 877 741
Additions/capital expenditure	11 245 096	11 245 096
Transferred to completed items	(13 381 414)	(13 381 414)
	2 741 423	2 741 423

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	3 022 569	3 022 569
Additions/capital expenditure	1 909 990	1 909 990
Transferred to completed items	(54 818)	(54 818)
	4 877 741	4 877 741

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Office equipment	114 350	143 072
Motor vehicles	169 129	312 279
Infrastructure	1 276 704	805 049
	1 560 183	1 260 400

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Deemed cost

Deemed cost was determined using the depreciated replacement cost.

11. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Servitudes	2 242 145	-	2 242 145	2 242 145	-	2 242 145
Computer software and licenses	95 934	(63 335)	32 599	113 352	(65 135)	48 217
Total	2 338 079	(63 335)	2 274 744	2 355 497	(65 135)	2 290 362

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

11. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Disposals	Amortisation	Total
Servitudes	2 242 145	-	-	2 242 145
Computer software and licenses	48 217	(1 149)	(14 469)	32 599
	2 290 362	(1 149)	(14 469)	2 274 744

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Servitudes	2 242 145	-	-	-	2 242 145
Computer software and licenses	39 397	31 040	(3 098)	(19 122)	48 217
	2 281 542	31 040	(3 098)	(19 122)	2 290 362

Pledged as security

There are no intangible assets pledged as security.

Deemed cost

Deemed cost was determined using the depreciated replacement cost.

12. Other financial liabilities

At amortised cost

Development Bank of South Africa	-	269 204
----------------------------------	---	---------

Annuity loans at amortised cost is calculated at 8% interest rate, with a maturity date of 30 June 2018. The loan is unsecured.

Current liabilities

At amortised cost	-	269 204
-------------------	---	---------

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
13. Finance lease obligation		
Minimum lease payments due		
- within one year	775 080	595 080
- in second to fifth year inclusive	2 021 856	2 077 227
	<u>2 796 936</u>	<u>2 672 307</u>
less: future finance charges	(636 061)	(722 517)
Present value of minimum lease payments	2 160 875	1 949 790
Present value of minimum lease payments due		
- within one year	(455 534)	(331 275)
- in second to fifth year inclusive	(1 705 341)	(1 618 515)
	<u>(2 160 875)</u>	<u>(1 949 790)</u>
Non-current liabilities	(1 705 341)	(1 618 515)
Current liabilities	(455 534)	(331 275)
	<u>(2 160 875)</u>	<u>(1 949 790)</u>

Refer to appendix "A" for descriptions, maturity dates and effective interest of structured loans and finance.

Leases are secured by property, plant and equipment - Note 5.

The average lease term is 5 years and the average effective borrowing rate was 15% (2017: 15%).

Interest rates are fixed at the contract date. All leases escalate at 15% p.a and no arrangements have been entered into for contingent rent.

14. Payables from exchange transactions

Trade payables	67 669 095	44 632 896
Payments received in advance (debtors with credit balances)	1 593 040	3 268 227
Uncleared deposits	6 763 501	4 637 878
Accrued leave pay	2 402 936	2 230 529
Accrued bonus	625 982	507 530
Deposits received	15 215	10 030
Payroll creditors	5 330 465	4 713 326
Deferred revenue	49 751	100 057
Other payables	301 123	47 364
Retention creditor	738 095	-
	<u>85 489 203</u>	<u>60 147 837</u>

15. VAT payable

Vat payable	-	615 861
-------------	---	---------

16. Consumer deposits

Electricity	119 180	115 992
Water	78 710	77 707
	<u>197 890</u>	<u>193 699</u>

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

17. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of post retirement benefits	(4 642 000)	(5 295 000)
Present value of long service awards	(1 507 000)	(1 343 000)
	(6 149 000)	(6 638 000)
Non-current liabilities	(5 718 000)	(6 056 000)
Current liabilities	(431 000)	(582 000)
	(6 149 000)	(6 638 000)

Post retirement benefits

Post Retirement Medical Aid Benefit

Balance 1 July	(5 295 000)	(6 092 473)
Contribution for the year	(103 000)	(307 775)
Interest cost	(523 000)	(518 152)
Expenditure for the year	347 903	646 744
Actuarial Gain	931 097	976 656
Total post retirement benefit - 30 June	(4 642 000)	(5 295 000)
Less: Transfer to current portion	349 000	449 000
	(4 293 000)	(4 846 000)

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

Members

In-service members	10	13
Continuation members (e.g. retirees, widows, orphans)	9	9
	19	22

The liability in respect of past service has been estimated to be as follows:

Liability

In-service members	(906 000)	(1 177 000)
Continuation members (e.g. retirees, widows, orphans)	(3 736 000)	(4 118 000)
	(4 642 000)	(5 295 000)

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- LA Health
- Keyhealth
- Bonitas
- Hosmed
- Fedhealth
- Samwumed

Key actuarial assumptions used:

Discount rate	Yield Curve	8,84 %
---------------	-------------	--------

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
17. Employee benefit obligations (continued)		
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	6,98 %
Health Care Cost Inflation Rate	CPI+1%	7,98 %
Net Effective Discount Rate	Yield curve based	0,79 %

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve." We used the nominal and real zero curves as at 29 June 2018 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be 60 years. This assumption implicitly allows for illhealth and early retirements.

Normal retirement age

It has been assumed that in-service members will retire at age 65, which then implicitly allows for expected rates of early and ill-health retirement.

Mortality rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Sensitivity Analysis on the Accrued Liability

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

17. Employee benefit obligations (continued)

Assumption	Change	Change
Valuation Assumptions		4 642 000
Health care inflation	+1%	5 166 000
Health care inflation	-1%	4 199 000
Mortality rate	+20%	4 277 000
Mortality rate	-20%	5 104 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2018

Assumption	Change	Current service	Interest Cost
Valuation Assumption		77 000	448 000
Health care inflation	+1%	98 000	501 000
Health care inflation	-1%	62 000	403 000
Mortality rate	+20%	71 000	411 000
Mortality rate	--20%	85 000	494 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2018

Long service award

Long service award

Balance 1 July	1 507 000	(1 145 192)
Contribution for the year	(154 000)	(132 706)
Interest cost	(141 000)	(92 264)
Expenditure for the year	49 964	36 600
Actuarial loss	81 036	(9 438)
Subtotal	1 343 000	(1 343 000)
Less: Transfer to current portion	(133 000)	133 000
Balance 30 June	1 210 000	(1 210 000)

The Long Service Award is a defined benefit plan, of which the members are made up as follows:

Total eligible

As at yearend, the following number of employees were eligible for long service bonuses	123	129
---	-----	-----

Key actuarial assumptions used:

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
17. Employee benefit obligations (continued)		
Discount rate	Yield Curve	8.05%
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	6.12%
General Salary Inflation	CPI+1%	7.12%
Net Effective Discount rate applied to salary-related Long Service Bonuses	Yield Curve Based	1.25%

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve." We use the nominal and real zero curves as at 29 June 2018 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2018 of 7.36%. The next salary increase was assumed to take place on 01 July 2019.

Average Retirement Age

The average retirement age for all active employees was assumed to be 60 years. This assumption implicitly allows for illhealth and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Sensitivity Analysis on the unfunded accrued liability:

Assumption	Change	Liability
Valuation assumptions		1 507 000
General salary inflation	+1%	1 605 000
General salary inflation	-1%	1 417 000
Withdrawal rate	+20%	1 421 000
Withdrawal rate	-20%	1 603 000
		7 553 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2018

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

17. Employee benefit obligations (continued)

Assumption	Change	Current service cost	Interest cost
Valuation Assumption		164 000	151 000
Health care inflation	+1%	176 000	162 000
Health care inflation	-1%	153 000	142 000
Withdrawal rate	+20%	152 000	142 000
Withdrawal rate	-20%	177 000	161 000
		822 000	758 000

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	262 410	5 967 412
Library Grant	1 929 450	1 929 450
Municipal Systems Improvement Grant	-	3 768
Project - 36 Erfs Loxton	305 093	305 093
Intergrated National Electrification Programme Grant	1 248	1 248
Project - Cemetery	88 739	88 739
COGSTHA Incentive Grant	460 835	460 835
Finance Management Grant	-	66 655
Project - Housing	115 555	115 555
Project - EIA Solid Waste Victoria West	99 012	99 012
Project - River Richmond	1 827	1 827
Water Services Infrastructure Grant	847 363	-
	(4 111 532)	(9 039 594)

See appendix "F" for a reconciliation of grants from other spheres of government. The unspent grants are cash-backed by term deposits. The municipality complied with the conditions of attached to all grants and received to the extent of the revenue recognised. Unspent grants for the 2015/2016 and 2016/2017 financial years were withheld during the 2018 financial year.

Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

See note 24 for reconciliation of grants from National/Provincial Government.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

19. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	4 135 691	260 444	334 105	4 730 240

Reconciliation of provisions - 2017

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	4 167 328	(284 051)	252 414	4 135 691
Non-current liabilities			3 385 372	1 171 442
Current liabilities			1 344 868	2 964 249
			4 730 240	4 135 691

Provision for environmental rehabilitation

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. The estimated total rehabilitation cost at the current inflation rate and estimated date of decommission of the sites have been determined at year end.

20. Service charges

Sale of electricity	11 888 283	11 530 867
Sale of water	2 587 590	5 780 547
Sewerage and sanitation charges	2 590 222	3 583 918
Refuse removal	3 678 969	3 847 803
Less: Departmental charges	(882 068)	(2 255 331)
Less: Indigents subsidies	(2 019 837)	(9 237)
	17 843 159	22 478 567

21. Rental of facilities and equipment

Premises	178 144	165 960
Venue hire	19 667	20 554
Other	9 485	65 895
	207 296	252 409

Included in the above rentals are operating lease rentals at straight-lined amounts of R - (2017: R 22 415) as well as contingent rentals of R - (2017: R -).

22. Investment revenue

Interest revenue

Interest on call accounts	402 336	317 974
---------------------------	---------	---------

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

23. Property rates

Rates received

Residential	5 392 008	6 103 765
Less: Income forgone	(348 837)	(760 857)
	5 043 171	5 342 908

Valuations

Residential	233 450 600	233 450 600
Commercial	72 798 900	72 798 900
State	54 167 100	54 167 100
Municipal	14 791 700	14 791 700
Farms	2 782 118 650	2 782 118 650
Public service infrastructure	12 475 400	12 475 400
Public benefit organisations	4 467 600	4 467 600
Vacant land	30 301 900	30 301 900
	3 204 571 850	3 204 571 850

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate per valuation category as specified in the annual municipal published tariff list is applied to property valuations to determine assessment rates. Rebates on the rateable value of R 15 000 (2017: R 15 000) are granted to residential and state property owners.

Rates are levied on an annual basis with the final date for payment being 30 June 2018 (30 June 2017). Interest at prime plus 1% per annum is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2019.

24. Government grants and subsidies

Operating grants

Equitable share	28 192 000	25 817 000
Finance Management Grant	1 900 000	1 825 000
Library Grant	860 000	791 885
Expanded Public Works Programme Grant	1 000 000	1 000 000
Northern Cape Provincial Treasury Grant	3 092 464	-
	35 044 464	29 433 885

Capital grants

Municipal Infrastructure Grant	9 676 426	2 101 090
Water System Infrastructure Grant	3 152 637	-
	12 829 063	2 101 090
	47 873 527	31 534 975

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	19 681 527	5 717 975
Unconditional grants received	28 192 000	25 817 000

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

24. Government grants and subsidies (continued)

47 873 527	31 534 975
-------------------	-------------------

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. The allocated equitable share for the year was R 28 192 000 (2017: R25 817 000) however, an amount of R6 162 000 (2017: R 5 252 000) was withheld by the National Treasury and only the R 22 030 000 (2017: R22 050 000) was disbursed to the municipality.

Municipal Infrastructure Grant - MIG

Balance unspent at beginning of year	5 967 412	7 677 487
Current-year receipts	10 063 000	5 514 000
Conditions met - transferred to revenue	(9 676 426)	(2 101 090)
Transferred to Equitable share withheld	(6 091 576)	(5 122 985)
	262 410	5 967 412

Conditions still to be met - remain liabilities (see note 18).

Library grant

Balance unspent at beginning of year	1 929 450	1 057 334
Current-year receipts	860 000	1 664 000
Conditions met - transferred to revenue	(860 000)	(791 884)
	1 929 450	1 929 450

Conditions still to be met - remain liabilities (see note 18).

Municipal Systems Improvement Grant - MSIG

Balance unspent at beginning of year	3 768	10 671
Transferred to Equitable share withheld	(3 768)	(6 903)
	-	3 768

Conditions still to be met - remain liabilities (see note 18).

Project - 36 Erfs Loxton

Balance unspent at beginning of year	305 093	305 093
--------------------------------------	---------	---------

Conditions still to be met - remain liabilities (see note 18).

Expanded Public Works Programme - EPWP

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	-

Integrated National Electrification Programme - INEP

Balance unspent at beginning of year	1 248	1 248
--------------------------------------	-------	-------

Conditions still to be met - remain liabilities (see note 18).

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
24. Government grants and subsidies (continued)		
Project - Cemetery		
Balance unspent at beginning of year	88 739	88 739
Conditions still to be met - remain liabilities (see note 18).		
COGSTHA Incentive Grant		
Balance unspent at beginning of year	460 835	460 835
Conditions still to be met - remain liabilities (see note 18).		
Financial Management Grant - FMG		
Balance unspent at beginning of year	66 655	188 767
Current-year receipts	1 900 000	1 825 000
Conditions met - transferred to revenue	(1 900 000)	(1 825 000)
Transferred to Equitable share withheld	(66 655)	(122 112)
	-	66 655
Conditions still to be met - remain liabilities (see note 18).		
Project Housing		
Balance unspent at beginning of year	115 555	115 555
Conditions still to be met - remain liabilities (see note 18).		
Project Solid Waste		
Balance unspent at beginning of year	99 012	99 012
Conditions still to be met - remain liabilities (see note 18).		
Project River Richmond		
Balance unspent at beginning of year	1 827	1 827
Conditions still to be met - remain liabilities (see note 18).		
Water Service Infrastructure Grant		
Current-year receipts	4 000 000	-
Conditions met - transferred to revenue	(3 152 637)	-
	847 363	-
Conditions still to be met - remain liabilities (see note 18).		

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

24. Government grants and subsidies (continued)

Northern Cape Provincial Treasury Grant

Current-year receipts	3 092 464	-
Conditions met - transferred to revenue	(3 092 464)	-
	-	-

Conditions still to be met - remain liabilities (see note 18).

25. Public contributions and donations

Public contributions	7 500	115 000
Grants in aid - Northern Cape Provincial Treasury	3 579 982	2 027 434
	3 587 482	2 142 434

Conditions still to be met - remain liabilities (see note 18)

26. Fines, Penalties and Forfeits

Library fines	1 058	2 734
Provincial traffic fines	3 150	7 100
Speed fines	32 520 300	30 497 935
	32 524 508	30 507 769

27. Revenue

Service charges	17 843 159	22 478 567
Rental of facilities and equipment	207 376	252 409
Interest received (trading)	1 945 255	4 036 767
Licences and permits	106 535	556 393
Sundry income	843 045	373 349
Interest received - investment	402 336	317 974
Property rates	5 043 171	5 342 908
Government grants & subsidies	47 873 527	31 534 975
Public contributions and donations	3 587 482	2 142 434
Fines, Penalties and Forfeits	32 524 508	30 507 769
	110 376 394	97 543 545

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	17 843 159	22 478 567
Rental of facilities and equipment	207 376	252 409
Interest received (trading)	1 945 255	4 036 767
Licences and permits	106 535	556 393
Other income	843 045	373 349
Interest received - investment	402 336	317 974
	21 347 706	28 015 459

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

27. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	5 043 171	5 342 908
----------------	-----------	-----------

Transfer revenue

Government grants & subsidies	47 873 527	31 534 975
-------------------------------	------------	------------

Public contributions and donations	3 587 482	2 142 434
------------------------------------	-----------	-----------

Fines, Penalties and Forfeits	32 524 508	30 507 769
-------------------------------	------------	------------

89 028 688	69 528 086
-------------------	-------------------

28. Employee related costs

Basic	20 752 434	20 372 157
-------	------------	------------

Medical aid - company contributions	312 633	-
-------------------------------------	---------	---

UIF	197 977	195 870
-----	---------	---------

SDL	196 335	198 833
-----	---------	---------

Other payroll levies	17 533	17 322
----------------------	--------	--------

Leave pay provision charge	142 140	705 288
----------------------------	---------	---------

Post retirement benefit	626 000	825 927
-------------------------	---------	---------

Pension fund contributions	3 241 660	3 152 763
----------------------------	-----------	-----------

Overtime payments	792 538	1 442 936
-------------------	---------	-----------

Long-service awards	154 000	132 706
---------------------	---------	---------

13th Cheques	1 406 385	1 139 644
--------------	-----------	-----------

Car allowance	368 107	301 784
---------------	---------	---------

Housing benefits and allowances	378 569	394 814
---------------------------------	---------	---------

Telephone allowance	11 030	12 994
---------------------	--------	--------

Standby allowance	355 619	204 569
-------------------	---------	---------

28 952 960	29 097 607
-------------------	-------------------

Remuneration of the Municipal Manager - Mr T Makhoba (Appointed 4 January 2017)

Annual Remuneration	611 021	458 266
---------------------	---------	---------

Car Allowance	125 149	93 862
---------------	---------	--------

Contributions to UIF, Medical and Pension Funds	111 242	88 973
---	---------	--------

Other	73 617	55 213
-------	--------	--------

921 029	696 314
----------------	----------------

Mr Makhoba is currently on suspension.

Remuneration of the Acting Municipal Manager - Mr SW Madyo (22 January 2018 to 30 April 2018)

Acting Allowance	54 349	-
------------------	--------	---

Contributions to UIF, Medical and Pension Funds	471	-
---	-----	---

54 820	-
---------------	----------

Remuneration of the Acting Municipal Manager - Mr D Maposa (Appointed 25 May 2018)

Acting allowance	28 530	-
------------------	--------	---

Contributions to UIF, Medical and Pension Funds	157	-
---	-----	---

28 687	-
---------------	----------

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
28. Employee related costs (continued)		
Remuneration of the Chief Financial Officer - Mr R Jacobs		
Annual Remuneration	607 666	138 754
Car Allowance	60 000	6 000
Contributions to UIF, Medical and Pension Funds	102 178	26 914
Other	76 984	24 427
	846 828	196 095
Remuneration of the Deputy Director of Corporate Services - Mr XG Malgas		
Annual Remuneration	199 403	465 802
Car Allowance	61 435	171 670
Contributions to UIF, Medical and Pension Funds	43 009	132 222
Acting allowance	-	34 173
Other	1 930	5 394
	305 777	809 261
29. Remuneration of councillors		
Councillors	2 540 609	2 463 979
Councillors' remuneration consist of the following:		
Remuneration of the Mayor - PE Jantjies		
Mayoral allowance	77 148	433 151
Transport allowance	29 574	154 693
Telephone allowance	4 078	21 331
Contributions to pension, medical and SDL	19 435	69 791
	130 235	678 966
Remuneration of the Mayor - AL Kweleta		
Mayoral allowance	386 871	-
Transport allowance	150 825	-
Telephone allowance	27 034	-
Contributions to pension, medical and SDL	77 832	-
	642 562	-
Remuneration of other councillors		
Councillor allowance	1 058 312	1 075 834
Transport allowance	336 711	411 381
Telephone allowance	202 984	151 879
Contributions to pension, medical and SDL	202 734	146 744
	1 800 741	1 785 838
30. Depreciation and amortisation		
Property, plant and equipment	24 696 906	46 652 575
Intangible assets	14 469	19 122
	24 711 375	46 671 697

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
31. Impairment loss / Reversal of impairments		
Impairments		
Property, plant and equipment	(312 616)	2 187 623
Receivables from exchange and non-exchange transactions	32 776 106	43 750 607
	32 463 490	45 938 230
32. Finance costs		
Non-current borrowings	14 542	27 002
Trade and other payables	4 968 632	5 294 306
Finance leases	350 749	153 010
Bank	26	47 663
Other interest incurred	475 106	344 677
	5 809 055	5 866 658
33. Bulk purchases		
Electricity	24 398 590	16 314 912
Water	1 509 619	1 229 359
	25 908 209	17 544 271
34. Contracted services		
Speed law enforcement services	1 003 507	603 520
Specialised financial consulting services	3 247 873	5 274 308
	4 251 380	5 877 828
35. General expenses		
Advertising	61 663	66 004
Auditors remuneration	3 425 783	2 291 288
Bank charges	313 254	298 613
Consulting and professional fees	3 696 870	4 366 447
Entertainment	-	364 097
Insurance	394 285	385 037
Motor vehicle expenses	-	59 319
Fuel and oil	1 006 527	685 798
Printing and stationery	209 434	252 745
Protective clothing	39 142	160 143
Inventory, spares and materials consumed	1 645 042	1 259 400
Research and development costs	189 910	128 729
Royalties and license fees	10 168	76 318
Security (Guarding of municipal property)	3 381	3 396
Subscriptions and membership fees	512 714	508 578
Telephone and fax	422 137	315 109
Training	-	22 225
Travel - local	326 227	717 962
Pauper burials	-	15 800
Other expenses	438 322	400 733
Rental paid	193 500	260 246
Paraffin subsidy	37 208	118 236
	12 925 567	12 756 223

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
36. Net cash flows from operating activities		
Deficit	(26 427 276)	(68 360 867)
Adjustments for:		
Depreciation and amortisation	24 711 375	46 671 697
Gain on sale of assets and liabilities	253 157	709 739
Impairment deficit	32 776 107	43 750 607
Debt impairment	(312 617)	2 187 623
Movements in retirement benefit assets and liabilities	(489 000)	(599 665)
Movements in provisions	594 549	251 414
Changes in working capital:		
Other receivables from exchange transactions	(851 346)	(1 149 224)
Consumer debtors	(32 543 190)	(37 735 974)
Other receivables from non-exchange transactions	(1 811 049)	(158 038)
Payables from exchange transactions	25 341 368	19 749 089
VAT	(2 347 845)	(1 318 436)
Unspent conditional grants and receipts	(4 928 062)	(966 974)
Consumer deposits	4 191	4 239
	13 970 362	3 035 230

37. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	7 547 834	15 135 127
---------------------------------	-----------	------------

Total capital commitments

Already contracted for but not provided for	7 547 834	15 135 127
---	-----------	------------

This committed expenditure relates to property, plant and equipment and will be financed by government grants.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

38. Contingencies

2018:

A High Court application was launched by Mr T Makhoba requesting a review of Council's decision to set aside his appointment, the matter is pending whilst a date for the pre-trial conference is being set. Council's legal representatives have not estimated a potential liability in this matter.

A claim was lodged against the municipality by Mr MF Fillis for unlawful dismissal, the municipality could be liable for an amount to R 600 000.

The municipality does not have a permit or licence for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act.

The municipality has received a letter from the Department of Transport, Safety and Liason indicating that an amount of R1,784,373.80 is owed to the Department. The matter is currently being investigated.

2017:

A claim was lodged against the municipality by Mr Conroy, due to a dispute over an account for the provision of water. If successful, the municipality will be liable for an amount of R 316 741 plus interest.

A claim was lodged against the municipality by Mr KJ Rigard for unlawful dismissal, the municipality could be liable for an amount to R 600 000.

A claim was lodged against the municipality by Mr MF Fillis for unlawful dismissal, the municipality could be liable for an amount to R 600 000.

The municipality does not have a permit or licence for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act.

39. Related parties

Relationships

Councillors

Accounting officer

Members of key management

Refer to note 29

Refer to note 28

Chief Financial Officer

Director Corporate Services

Director Technical Services

40. Prior period errors

The municipality corrected the following prior period errors retrospectively and restated comparative amounts in terms of GRAP 3 - Accounting policies, Changes in Estimates and Errors.

The correction of the error(s) results in adjustments as follows:

40.1. Prior period error - Intangible assets (computer software) misstated in the FAR

During the period under review it was noted that the intangible assets register (computer software) was misstated at 30 June 2017. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Decrease in intangible assets (computer software)

Increase in opening accumulated surplus / (deficit)

12 291

(20 103)

(7 812)

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
40. Prior period errors (continued)		
Statement of financial performance		
Increase in depreciation and amortisation		7 812
40.2. Prior period error - Other assets misstated in the FAR		
During the period under review it was noted that the other assets were misstated at 30 June 2017. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in other assets		70 950
Increase in opening accumulated surplus / (deficit)		(43 601)
		27 349
Statement of financial performance:		
Increase in depreciation and amortisation		26 849
Decrease in loss on disposal of asset		(54 198)
		(27 349)
40.3. Prior period error - Understatement of receivables from non-exchange transactions		
During the period under review it was noted that the receivables from non-exchange transactions were understated as the balance for petrol cards was not recorded at 30 June 2017. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in receivables from non-exchange transactions		4 869
Statement of financial performance		
Decrease in general expenses		(4 869)
40.4. Prior period error - Land and buildings misstated on the FAR		
During the period under review it was noted that the prior year's land and buildings assets register was misstated as a result of certain assets being impaired at 30 June 2017. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below: The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Decrease in land and buildings		(79 976)
Statement of financial performance		
Increase in impairment		79 976
40.5. Prior period error - Community assets misstated on the FAR		
During the period under review it was noted that the prior year's community assets register was misstated as a result of certain assets being impaired at 30 June 2017. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Decrease in community assets		(1 519 708)
Statement of financial performance		
Increase in impairment		1 520 709
Decrease in repairs and maintenance		1 000

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
40. Prior period errors (continued)		1 521 709
40.6. Prior period error - Unmetered consumption for water and electricity not measured		
During the period under review it was noted that unmetered consumption for water and electricity consumed from the 15th of June to then 30th June was not accrued for at year end. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in receivables from exchange transactions		297 246
Increase in opening accumulated surplus / (deficit)		(495 079)
		(197 833)
Statement of financial performance		
Decrease in service charges		197 834
40.7. Prior period error - DBSA Loan paid in advance		
During the period under review it was noted that the DBSA long term liability has a prepaid interest portion which was not recorded at 30 June 2017. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Decrease in long term liabilities		19 895
Statement of financial performance		
Decrease in finance charges		(19 895)
40.8. Understatement of payables from exchange transactions and VAT Payable		
During the period under review it was noted that interest and penalties payable to SARS was not accrued for at 30 June 2015 and 2016. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in vat payable		(4 490)
Increase in payables from exchange transactions		(61 471)
Decrease in other receivables from exchange transactions		(19 193)
Increase in opening accumulated surplus / (deficit)		(115 850)
		(201 004)
Statement of financial performance		
Increase in finance costs		201 004
40.9. Prior period error - Infrastructure assets misstated in the FAR		
During the period under review it was noted that the other assets were misstated at 30 June 2017. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in opening accumulated surplus / (deficit)		(22 183)
Statement of financial performance		
Increase in depreciation and amortisation		1 408

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

40. Prior period errors (continued)

Increase in loss on disposal of assets	20 775
	22 183

41. Comparative figures

Certain comparative figures have been reclassified.

During the year under review it was noted that the prior account balances and totals were misstated due to a mismapping of various general ledger accounts. The error has since been rectified in the current year.

The effects of the reclassification are as follows:

Statement of financial performance - extract

	Comparative figures previously reported	Reclassification on	After reclassification
Repairs and maintenance	(1 260 400)	1 260 400	-
General expenses	(11 495 823)	(1 260 400)	(12 756 223)
Total	(12 756 223)	-	(12 756 223)

42. Change in estimate

Property, plant and equipment

During the year, the municipality changed its accounting estimates with respect to infrastructure assets. In order to conform with the benchmark treatment of GRAP 17, the municipality re-assessed the remaining useful lives of all infrastructure assets, which led to a change in the depreciation for the current year.

The current aggregate effect of the changes in accounting estimate on the financial statements of the year ended 30 June 2018 is as follows:

Depreciation expense before remaining useful lives review	-	46 181 155
Future increase in depreciation due to review	-	(21 484 248)
	-	24 696 907

43. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

43. Risk management (continued)

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	197 890	-	-	-
Employee benefit obligation	431 000	-	-	-
Payables from exchange transactions	85 489 203	-	-	-
Unspent conditional grants and receipts	4 111 532	-	-	-
	90 229 625	-	-	-

At 30 June 2017	Less than 1 year	Between 1 and 2 year	Between 2 and 5 years	Overs 5 years
Consumer deposits	193 699	-	-	-
Employee benefit obligation	582 000	-	-	-
Payables from exchange transactions	60 147 837	-	-	-
Unspent conditional grants	9 039 594	-	-	-
	69 963 130	-	-	-

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to note 5 and 7 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 5 and 7 for balances included in receivables that were re-negotiated for the period under review.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Price risk

The municipality is not exposed to price risk.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

44. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	4 403 468	4 403 468
Receivables from non-exchange transactions	10 075 232	10 075 232
Cash and cash equivalents	5 174 429	5 174 429
	19 653 129	19 653 129

Financial liabilities

	At amortised cost	Total
Other financial liabilities	197 890	197 890
Payables from exchange transactions	85 489 203	85 489 203
Unspent conditional grants and receipts	4 111 532	4 111 532
	89 798 625	89 798 625

2017

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	4 636 385	4 636 385
Receivables from non-exchange transactions	8 264 760	8 264 760
Cash and cash equivalents	2 528 826	2 528 826
	15 429 971	15 429 971

Financial liabilities

	At amortised cost	Total
Loans from economic entities	269 204	269 204
Other financial liabilities	193 699	193 699
Payables from exchange transactions	60 147 837	60 147 837
Unspent conditional grants and receipts	9 039 594	9 039 594
	69 650 334	69 650 334

45. Unauthorised expenditure

Opening balance	269 795 351	168 095 797
Add: Unauthorised expenditure - prior year correction	-	1 817 863
Add: Unauthorised Expenditure - current year	46 251 001	101 699 554
	316 046 352	271 613 214

Details of unauthorised expenditure - current year

	Disciplinary steps taken/criminal proceedings	
Overspending of vote budgets	Awaiting Council decision	46 251 001

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

45. Unauthorised expenditure (continued)

Details of unauthorised expenditure - prior year

	Disciplinary steps taken/criminal proceedings	
Overspending of vote budgets	Awaiting Council decision	101 699 554

46. Fruitless and wasteful expenditure

Opening balance	10 831 158	5 481 347
Add: Fruitless and Wasteful Expenditure - current year	5 443 764	5 349 811
	16 274 922	10 831 158

Details of fruitless and wasteful expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Interest on overdue accounts	Awaiting Council decision	5 126 715
Fines and penalties	Awaiting Council decision	317 049
		5 443 764

Details of fruitless and wasteful expenditure – prior year

	Disciplinary steps taken/criminal proceedings	
Interest on overdue accounts	Awaiting Council decision	4 741 123
Fines and penalties	Awaiting Council decision	352 179
VAT paid to non-vendor	Awaiting Council decision	256 509
		5 349 811

47. Irregular expenditure

Opening balance	51 958 105	43 359 680
Add: Irregular Expenditure - current year	4 794 174	8 598 425
	56 752 279	51 958 105

Analysis of expenditure awaiting condonation per age classification

Current year	4 794 174	8 598 425
Prior years	51 958 105	43 359 680
	56 752 279	51 958 105

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Various contravention of procurement prescripts	Awaiting Council decision	4 794 174

Details of irregular expenditure - prior year

	Condoned by (condoning authority)	
Various contravention of procurement prescripts	Awaiting Council decision	8 598 425

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1 265 578	760 000
Current year subscription / fee	506 857	505 578
	1 772 435	1 265 578

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Distribution losses

Electricity distribution losses

kWh purchased	12 803 513	13 350 415
Less: kWh sold	(7 346 825)	(4 385 697)
kWh Losses	5 456 688	8 964 718

% losses	43%	67%
----------	-----	-----

Average cost per unit	1,20	1,32
-----------------------	------	------

Loss on Rand value	4 436 287	11 816 650
--------------------	-----------	------------

Water distribution losses (Kilo litres)

Kilo litres purchased	518 918	499 156
Less: Kilo litres sold	(515 933)	(421 028)
	2 985	78 128

% losses	58%	16%
----------	-----	-----

Average cost per kilo litre	2.91	2,48
-----------------------------	------	------

Loss in Rand value	8 683	193 757
--------------------	-------	---------

Audit fees

Opening balance	3 102 690	3 220 369
Current year subscription / fee	4 136 769	2 900 251
	(622 302)	(2 027 434)
Amount paid - previous years	(3 102 690)	(990 496)
	3 514 467	3 102 690

PAYE, UIF and SDL

Opening balance	2 361 569	1 363 928
Current year subscription / fee	3 437 791	3 580 031
Amount paid - current year	(670 881)	(1 218 482)
Amount paid - previous years	(2 361 569)	(1 363 928)
	2 766 910	2 361 549

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Opening balance	1 548 499	-
Current year subscription / fee	5 515 219	5 279 836
Amount paid - current year	(3 312 148)	(3 731 337)
Amount paid - previous years	(1 548 499)	-
	2 203 071	1 548 499

VAT

VAT receivable	1 731 984	-
VAT payable	-	615 861
	1 731 984	615 861

VAT output payables and VAT input receivables are shown in note 15.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor PE Jantjies	3 145	1 178	4 323
Councillor JZ Lolwana	7 783	100 478	108 261
Councillor JH Vorster	1 762	40 585	42 347
Councillor CC Jantjies	3 392	22 849	26 241
	16 082	165 090	181 172

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor SC Jordaan	803	893	1 696
Councillor KJ Gigard	2 078	10 696	12 774
Councillor CC Jantjies	995	15 408	16 403
Councillor CC Jantjies	872	6 663	7 535
Councillor BJ Bruwer	2 074	1 111	3 185
Councillor KV De Bruin	1 022	2 096	3 118
Councillor JZ Lolwana	1 742	24 572	26 314
Councillor MA Gongotha	1 328	11 798	13 126
Councillor KJ Arens	-	4 944	4 944
	10 914	78 181	89 095

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

49. Going concern

We draw attention to the fact that at 30 June 2018, the municipality incurred a deficit of R26 427 276 (2017: R68 360 868) for the financial year.

We further draw attention to the fact that at 30 June 2018 a material uncertainty exists regarding the ability of the municipality to continue as a going concern. These factors are listed below:

- 1) The provisions for rehabilitation of landfill sites and employee benefit provisions are not cash backed.
- 2) The municipality experienced cash flow problems during the year, which resulted in major creditors not being paid timeously.
- 3) The consumer debtors days outstanding decreased to 1,099 days from (2017: 1,121 days).
- 4) Electricity distribution lossess (technical and non-technical) have decreased, however they are still above the norm to 43% (2017: 67%) and the water distribution losses has increased to 58% from (2017: 16%).
- 5) The municipality's current liabilities exceeds it's current assets by R69 540 950 (2017: R58 461 128) which indicates a current ratio which is below the required norm of 1.5 - 2.
- 6) The municipality incurred a net deficit for the year under review of R66 384 465 (2016: R70 880 174), the major contributor to this change is increases in bulk purchases, impairments, finance costs and contracted services.

Even though the above uncertainties exist regarding the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations of the municipality.

Furthermore the municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality is currently implementing a system to enhance revenue collection and cash flow by improving on the debt recoverability.

The municipality still has the ability to levy rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocation in terms of the Division of Revenue Act.

50. Events after the reporting date

There was no significant events after the reporting date:

51. Budget differences

Material differences between budget and actual amounts

All variances greater than 10% will be explained on the final Annual Financial Statements for the year ended 30 June 2017.

x1: Variance below 10%, therefore insignificant.

x2: Rental of facilities - increased MTN rentals and hall utilisation.

x3: Interest received (trading) - economic climate has impacted on debtors payments percentages and therefore interest levied higher than expected.

x4: Licence and permits income is difficult to predict as it is based on the frequency of unpredictable events.

x5: Other income is difficult to predict as it is based on the frequency of unpredictable events.

x6: Due to funds being utilised quicker than expected due to financial constraints.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

51. Budget differences (continued)

x7: Implementation of the new valuation roll which was effective 1 July 2015.

x8: Variance below 10%, therefore insignificant.

x9: Donation income is difficult to predict as it is based on the frequency of unpredictable events.

x10: Traffic fine income is difficult to predict as it is based on the frequency of unpredictable events.

x11: Due to less wages and overtime paid than expected.

x12: Variance below 10%, therefore insignificant.

x13: Due to the adoption of the amended FAR with significant changes to the value, useful lives and condition of all assets.

x14: Economic climate has impacted on debtors payments percentages and therefore resulting in long outstanding debtors.

x15: Actuarial and landfill site interest and creditors not provided for in the budgeted figure.

x16: General increase in the level of unexpected repairs.

x17: General increase in electricity and water tariffs above the expected increase.

x18: Due to increase in use of consultants for specialist services.

x19: Cost cutting measures applied.

x20: Losses on disposal of asset are difficult to predict as there is no certainty on which assets will be sold.

x21: Actuarial gains and losses not budgeted for.

**APPENDIX A - UNAUDITED
UBUNTU LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2018**

EXTERNAL LOANS	Rate	Loan Number	Redeemable	Balance at 30 JUNE 2017	Correction of Error	Balance at 30 JUNE 2017 Restated	Received during the period	Redeemed written off during the period	Balance at 30 JUNE 2018
ANNUITY LOANS									
Development Bank of South Africa	8.00%	12692/101	2018/06/30	289 099	(19 895)	269 204	-	(269 204)	-
Total Annuity Loans				289 099	(19 895)	269 204	-	(269 204)	-
FINANCE LEASES									
Nashua	14.64%	N/a	2021/11/30	1 949 790	-	1 949 790	-	(331 275)	1 618 515
Nashua	14.64%	N/a	2022/06/30	-	-	-	635 415	(93 055)	542 360
Total Finance Leases				1 949 790	-	1 949 790	635 415	(424 330)	2 160 875
TOTAL EXTERNAL LOANS				2 238 889	(19 895)	2 218 994	635 415	(693 534)	2 160 875

APPENDIX B - UNAUDITED
UBUNTU LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2018

PROPERTY, PLANT AND EQUIPMENT

30 JUNE 2018

Reconciliation of Carrying Value

	Cost				Accumulated	Accumulated Depreciation and Impairment Losses					Carrying Value
	Opening Balance R	Additions R	Disposals/ Transfers R	Closing Balance R	Impairment	Opening Balance R	Depreciation Charge R	Impairment R	Disposals R	Closing Balance R	R
Buildings	69 928 843	-	-25 872	69 902 970	-	41 045 162	1 144 532	-380 638	-18 793	41 790 264	28 112 707
Land	19 753 122	-	-	19 753 122	-	-	-	-	-	-	19 753 122
Buildings	50 175 721	-	-25 872	50 149 849	-	41 045 162	1 144 532	-380 638	-18 793	41 790 264	8 359 585
Infrastructure	834 414 100	13 381 415	2 158 609	849 954 124	-	393 534 564	18 042 614	-	2 190 117	413 767 295	436 186 828
Electrical Infrastructure	57 558 195	-	-	57 558 195	-	38 117 755	1 143 187	-	-	39 260 942	18 297 253
Roads Infrastructure	287 155 778	13 360 109	-123 946	300 391 941	-	200 742 919	10 645 474	-	-107 291	211 281 102	89 110 839
Sanitation Infrastructure	372 753 885	11 234	-81 828	372 683 291	-	96 130 976	3 933 199	-	-66 984	99 997 191	272 686 100
Solid Waste Infrastructure	-	-	2 623 122	2 623 122	-	-	8 352	-	2 531 245	2 539 597	83 525
Storm water Infrastructure	19 499 039	-	-	19 499 039	-	13 830 625	378 894	-	-	14 209 519	5 289 520
Water Supply Infrastructure	97 447 203	10 072	-258 739	97 198 536	-	44 712 289	1 933 508	-	-166 853	46 478 944	50 719 592
Community Assets	250 369 219	-	-2 623 122	247 746 097	-	106 140 514	9 555 869	-	-	115 696 382	132 049 714
Community Facilities	171 330 098	-	-2 623 122	168 706 976	-	64 037 212	7 771 687	-	-	71 808 899	96 898 076
Recreational Facilities	79 039 121	-	-	79 039 121	-	42 103 301	1 784 182	-	-	43 887 483	35 151 638
Lease Assets	2 410 936	-	-	2 410 936	-	521 332	413 715	-	-	935 048	1 475 888
Office Equipment	2 410 936	-	-	2 410 936	-	521 332	413 715	-	-	935 048	1 475 888
Other Assets	7 951 942	21 544	-438 215	7 535 272	-	5 372 622	573 557	-382 140	68 022	5 632 060	1 903 212
Furniture and fittings	884 256	-	-29 036	855 220	-	628 151	59 085	-20 819	243	666 661	188 559
Computer equipment	1 028 441	3 477	-71 703	960 215	-	617 970	112 180	-62 102	65	668 112	292 103
Mechanical equipment	288 448	-	-1 048	287 400	-	216 643	20 388	-812	524	236 743	50 657
Office machines	238 498	17 194	-51 500	204 192	-	184 564	15 926	-48 256	53	152 289	51 903
Electrical equipment	658 868	-	-284 054	374 813	-	524 104	50 708	-250 152	133	324 793	50 021
Vehicles	4 853 433	873	-873	4 853 433	-	3 201 189	315 270	-	67 004	3 583 463	1 269 970
	1 165 075 040	13 402 959	-928 600	1 177 549 399	-	546 614 194	29 730 287	-762 779	2 239 347	577 821 050	599 728 350

APPENDIX B - UNAUDITED
UBUNTU LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2017

PROPERTY, PLANT AND EQUIPMENT

30 JUNE 2017

Reconciliation of Carrying Value

Reconciliation of Carrying Value	Cost				Accumulated Depreciation and Impairment Losses					Carrying Value	
	Opening Balance	Additions	Disposals/ Transfers	Closing Balance	Opening Balance	Depreciation Charge	Impairment	Disposals/ Transfers	Closing Balance		
	R	R	R	R	R	R	R	R	R	R	
Buildings	69 928 843	-	-	69 928 843	-	38 642 306	1 942 242	460 614	-	41 045 162	28 883 680
Land	19 753 122	-	-	19 753 122	-	-	-	-	-	-	19 753 122
Buildings	50 175 721	-	-	50 175 721	-	38 642 306	1 942 242	460 614	-	41 045 162	9 130 558
Infrastructure	834 508 800	54 818	-149 517	834 414 102	-	359 575 439	34 055 931	-96 806	-	393 534 564	440 879 538
Electricity Network	57 622 423	-	-72 598	57 549 824	-	36 745 703	1 417 319	-	-51 824	38 111 198	19 438 626
Roads and stormwater network	306 654 817	-	-	306 654 817	-	188 649 579	25 923 964	-	-	214 573 544	92 081 274
Sanitation network	372 753 886	-	-	372 753 886	-	91 851 069	4 279 906	-	-	96 130 975	276 622 911
Water supply network	97 477 675	54 818	-76 919	97 455 574	-	42 329 088	2 434 741	-	-44 982	44 718 847	52 736 728
Community Assets	250 652 269	-283 051	-	250 369 219	-	95 063 936	9 555 869	1 520 709	-	106 140 514	144 228 705
Community Facilities	171 613 148	-283 051	-	171 330 098	-	56 108 168	7 771 687	157 357	-	64 037 212	107 292 885
Recreational Facilities	79 039 121	-	-	79 039 121	-	38 955 768	1 784 182	1 363 352	-	42 103 301	36 935 820
Lease Assets	1 118 906	1 990 545	-698 514	2 410 936	-	782 542	232 974	-494 184	-	521 332	1 889 604
Office Equipment	1 118 906	1 990 545	-698 514	2 410 936	-	782 542	232 974	-494 184	-	521 332	1 889 604
Other Assets	9 141 761	711 207	-1 901 026	7 951 942	-	5 769 483	865 559	-1 468 721	206 300	5 372 622	2 579 321
Furniture and fittings	1 192 941	-	-308 685	884 256	-	775 267	93 246	-240 983	621	628 151	256 104
Computer equipment	1 288 773	265 508	-525 841	1 028 441	-	883 611	148 351	-414 414	422	617 970	410 471
Mechanical equipment	597 408	10 517	-319 477	288 448	-	377 250	57 892	-218 558	59	216 643	71 805
Office machines	354 594	-	-116 096	238 498	-	254 098	26 902	-96 436	-	184 564	53 933
Electrical equipment	964 329	2 183	-307 644	658 868	-	701 655	78 425	-256 071	95	524 104	134 763
Vehicles	4 743 716	433 000	-323 283	4 853 433	-	2 777 603	460 744	-242 260	205 102	3 201 189	1 652 244
	1 165 350 579	2 473 520	-2 749 057	1 165 075 042	-	499 833 707	46 652 575	18 418	109 494	546 614 194	618 460 848

**APPENDIX D - UNAUDITED
UBUNTU LOCAL MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018
MUNICIPAL VOTES CLASSIFICATION**

2017 Actual Income R	2017 Actual Expenditure R	2017 Surplus/ (Deficit) R		2018 Actual Income R	2018 Actual Expenditure R	2018 Surplus/ (Deficit) R
-	-	-	ABBATOIR	-	-1 171	-1 171
14 550	-7 050 091	-7 035 541	ADMINISTRATION	712 333.25	-5 596 041	-4 883 708
-	-505 578	-505 578	AERODROME	-	-527 114	-527 114
186 514	-250 881	-64 367	BUILDINGS & OFFICES	197 811.20	-389 846	-192 035
14 198	-	14 198	CEMETRY	18 056.24	-	18 056
70 615	-	70 615	COMMONAGE	44 423.94	-	44 424
2 142 434	-11 338 437	-9 196 003	COUNCIL GENERAL EXPENSES	189 297.09	-7 274 012	-7 084 715
-	-	-	DAM WATER	-	-223	-223
11 711 621	-53 152 968	-41 441 347	ELECTRICITY	11 900 690.71	-46 599 523	-34 698 832
30 749 965	-44 959 251	-14 209 286	FINANCE	40 864 602.96	-48 113 312	-7 248 709
-	-12 683	-12 683	FIRE BRIGADE	-	-9 198	-9 198
-	-54 051	-54 051	HEALTH SERVICES	602	-8 752	-8 150
794 619	-1 408 050	-613 431	LIBRARY'S	861 058	-1 348 356	-487 298
4 354	-998 651	-994 297	MANAGEMENT SEVICES	153	-1 322 619	-1 322 467
671	-	671	NATURE RESERVE	-	-	-
12 185	-110 215	-98 029	PARKS & RECREATION	2 160	-	2 160
5 342 908	-	5 342 908	PROPERTY TAX	8 400	-101 531	-93 131
3 124 880	-13 441 290	-10 316 410	PUBLIC WORKS	5 809 039	-765 868	5 043 171
3 847 714	-7 972 996	-4 125 283	REFUSE	5 011 096	-3 125 571	1 885 525
-	-341 827	-341 827	ROADS AND STORMWATER DRAINAGE	3 991 585	-6 144 552	-2 152 966
3 585 350	-7 761 263	-4 175 913	SEWERAGE AND SANITATION	500	-129 955	-129 455
-	-	-	SUNRISE	3 260 219	-6 538 755	-3 278 537
31 100 713	-5 530 243	25 570 470	TRAFFIC SERVICES	32 627 523	-5 829 336	26 798 186
5 807 472	-11 983 155	-6 175 683	WATER	5 888 976	-3 990 066	1 898 910
98 510 763	(166 871 630)	(68 360 867)	Sub Total	111 388 526	(137 815 802)	(26 427 275)
-	-	-		-	-	-
98 510 763	(166 871 630)	(68 360 867)	Total	111 388 526	(137 815 802)	(26 427 275)

APPENDIX F - UNAUDITED
UBUNTU LOCAL MUNICIPALITY
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grant Description	Balance 1 JULY 2017	Grants Received	Forfeited to National Revenue Fund	Tranferred to Funds to be Surrendered	Operating Expenditure during the year Transferred to Revenue	Capital Expenditure during the year Transferred to Revenue	Balance 30 JUNE 2018	Unspent 30 JUNE 2018 (Creditor)	Unpaid 30 JUNE 2018 (Debtor)
<u>National Government Grants</u>									
Equitable Share	-	22 030 000	6 162 000	-	28 192 000	-	-	-	-
Local Government Financial Management Grant	66 655	1 900 000	(66 655)	-	1 900 000	-	-	-	-
Municipal Infrastructure Grant	5 967 412	10 063 000	(6 091 577)	-	-	9 676 426	262 409	262 409	-
Municipal Systems Improvement Grant	3 768	-	(3 768)	-	-	-	-	-	-
Water Services Infrastructure Grants (WSIG)	-	4 000 000	-	-	-	3 152 637	847 363	-	-
National Electrification Programme (INEP)	1 248	-	-	-	-	-	1 248	1 248	-
Expanded Public Works Program (EPWP)	-	1 000 000	-	-	1 000 000	-	-	-	-
Total National Government Grants	6 039 083	38 993 000	-	-	31 092 000	12 829 063	1 111 020	263 657	-
<u>Provincial Government Grants</u>									
Project Library	1 929 450	860 000	-	-	860 000	-	1 929 450	1 929 450	-
Northern Cape Provincial Treasury	-	3 092 464	-	-	3 092 464	-	-	-	-
Department of Human Settlements (Services 36 Erven Loxton)	305 093	-	-	-	-	-	305 093	305 093	-
Project Housing	115 555	-	-	-	-	-	115 555	115 555	-
COGSTHA Incentive Grant	460 835	-	-	-	-	-	460 835	460 835	-
Total Provincial Government Grants	2 810 933	3 952 464	-	-	3 952 464	-	2 810 933	2 810 933	-
<u>District Municipality Grants</u>									
Upgrading of Sportsgrounds	-	-	-	-	-	-	-	-	-
Total District Municipality Grants	-	-	-	-	-	-	-	-	-
<u>Other Grant Providers</u>									
Project Cemetery	88 739	-	-	-	-	-	88 739	88 739	-
Project River Richmond	1 828	-	-	-	-	-	1 828	1 828	-
Solid Waste Site Victoria West	99 012	-	-	-	-	-	99 012	99 012	-
Total Other Grant Providers	189 579	-	-	-	-	-	189 579	189 579	-
Total	9 039 594	42 945 464	-	-	35 044 464	12 829 063	4 111 532	3 264 168	-